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**THE INFLUENCING FACTORS OF GST COMPLIANCE  
INTENTION AMONG THE SMALL AND MEDIUM  
ENTERPRISES IN MALAYSIA**

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## ABSTRACT

The RMCD is entrusted by the Ministry of Finance to administer all matters concerning GST, which was first introduced on 1 April 2015. It has been argued that the introduction of GST would bring many benefits to customers and businesses. This study aims to determine the influencing factors that encouraged taxpayers to meet their obligations in paying GST to the Government. Samples are taken from the business entities among the SMEs in Johor Bahru area which registered under the GST system. This is due to the fact that 95.3% of the GST-registered persons in Malaysia are from these business segments and thus meeting GST obligations mean increasing costs for them. Based on literature review, credible causal factors identified are deterrence measures, attitudes, subjective norms, perceptions of fairness of GST system and GST knowledge. This study utilised statistical survey method to expose high level of GST compliance intention among SMEs and also there is significant relationship between deterrence measures and attitudes with GST compliance intention among SMEs taxpayers. The findings in this paper will be beneficial for the use of enforcement body to tackle existing problems and mitigate the risk of tax evasion in the country.

**Keywords:** *Deterrence Measures, TRA, Fairness, GST Knowledge and GST Compliance Intention, SMEs.*

## ABSTRAK

RMCD diamanahkan oleh Kementerian Kewangan untuk mentadbir semua perkara berkaitan CBP (GST), yang mula diperkenalkan pada 1 April 2015. Pengenalan GST akan membawa banyak faedah kepada pelanggan dan perniagaan. Kajian ini bertujuan untuk mengenalpasti faktor-faktor yang memberi kesan yang menggalakkan pembayar cukai untuk memenuhi kewajipan mereka dalam membayar GST kepada Kerajaan. Sampel diambil dari entiti perniagaan di kalangan PKS (SMEs) di kawasan Johor Bahru yang didaftarkan di bawah sistem GST. Ini disebabkan oleh fakta bahawa 95.3% daripada orang yang berdaftar di dalam sistem GST di Malaysia adalah dari segmen perniagaan ini dan dengan itu memenuhi obligasi GST bermakna peningkatan kos untuk mereka. Berdasarkan tinjauan kesusasteraan, faktor kausal yang boleh dipercayai yang dikenal pasti adalah langkah pencegahan, sikap, norma subjektif, persepsi tentang keadilan sistem GST dan pengetahuan GST. Kajian ini menggunakan kaedah tinjauan statistik untuk mendedahkan niat pematuhan GST yang tinggi di kalangan SMEs dan juga terdapat hubungan yang signifikan antara langkah pencegahan dan sikap dengan niat pematuhan GST di kalangan pembayar cukai SMEs. Penemuan dalam kajian ini akan memberi manfaat kepada badan penguatkuasaan untuk menangani masalah yang ada dan mengurangkan risiko pengelakan cukai di negara ini.

**Kata kunci:** *Langkah Pencegahan, Sikap, TRA, Keadilan, Pengetahuan GST dan Niat kepatuhan GST, SMEs.*

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## LIST OF ABBREVIATIONS

CBOS	The Customs Blue Ocean Strategy
GDP	Gross Domestic Product
GST	Goods and Services Tax
GTP	Government Transformation Programme
OECD	The Organisation for Economic Co-Operation and Development
PKS	Perusahaan Kecil dan Sederhana
RMCD	Royal Malaysia Customs Department
SMECorp	Small and Medium Enterprises Corporation
SMEs	Small and Medium Enterprises
SST	Sales and Services Tax
SPSS	Statistical Package for Social Sciences
UiTM	Universiti Teknologi Mara
WPKL	Wilayah Persekutuan Kuala Lumpur

## CHAPTER 1

### INTRODUCTION

#### 1.1 Research Background

Preliminarily, taxes represent a greater share of the economy in almost every country around the world including Malaysia. The collection of taxes is important primarily to raise revenue for the government to fund its expenditures in order to achieve an economic growth and also to promote a sound economy. Inevitably, the functional role of trade and private sectors are crucial in supporting the country's economic growth. Obviously in Malaysia, the existence of the Small and Medium Enterprises (SMEs) play a significant part in promoting to the economic growth and endogenous development in the industrial expansion (Mukhlis, Utomo & Soesetio, 2016).

The SMEs are being regarded as the backbone of Malaysian economic due to their strong contribution (Sallem, Nasir, Nori & Kassim, 2017) in providing opportunity for an employment, creating purchasing power, processing local raw material and ultimately increasing the tax revenue (Mukhlis et al., 2016). Therefore, continual development of SMEs in the regional economy have been viewed as a source of tax revenue for the Federal Government to finance national development. The potential revenues of substantial taxes are derived from the imposition of tax, in this case Goods and Services Tax (GST) on the SMEs. Hence, the compliance of GST will determine the success of the implemented system.

Nonetheless, according to Kumar and Thomas (2017), Royal Malaysia Custom's recent experiences show that the non-compliance culture is prevalent among smaller businesses. Perhaps, the phenomenon is not unusual in Malaysia as it is also a major problem in the

developed countries. The non-compliance by small businesses extends to all spectrum of GST obligations. These businesses are found to commit non-compliance in meeting their GST obligations predominantly in reporting incorrect GST returns and registered under GST to unlawfully claim refund. Some are ignorant of deadlines while many have improper record-keeping culture that leads to poor-filing and payment compliance.

Thus, the violation of GST compliance undermines the government's revenue, distorts competition as it gives the non-compliant business an advantage in the form of cash flow and compromises equity as this may encourage further non-compliance in other aspects of GST (Kumar & Thomas, 2017). Further, it slows down mobilization of resources needed by the government to finance its expenditure on the important areas of social and personal development including health, education and infrastructure development (Ferraro & Cummings, 2005). Realizing the significant loss of revenue due to GST non-compliance, Royal Malaysia Customs Department (RMCD) needs to devise its own strategies to promote compliance among its taxpayers especially the SMEs. Therefore, in order to promote and execute compliance programs, it is important to identify factors that drive towards it and come up with methods to curb the occurrence of non-compliance which will subsequently accomplish the fulfilment of GST obligations.

## **1.2 Small and Medium Enterprises (SMEs) as the Research Context**

The current study, focuses on the SMEs which are already registered under the GST system with RMCD. According to the RMCD, the number of GST-registered companies are around 455,965 as at 31 December 2017 and 434,322 from these companies are from the segment of SME, which is equivalent to 95.3% of the total registrants (RMCD, 2017). Due to this fact, the SMEs play a significant role in determining the achievement of the GST system

deliberated as vital for the well-being of the economy (Weichenrieder, 2007). Therefore, it is not overly stated that the effective collection of GST can be indicated by the level of GST compliance among the SMEs.

The SMEs, as distinct by the Small and Medium Enterprises Corporation (SMECorp) of Malaysia can be divided into two main categories; manufacturing; and services and other sectors. They are classified based on the annual sales turnover or number of full-time employees. In order to provide clear understandings, Table 1.1 below illustrates the simplified definitions of SMEs on the respective sectors:

Table 1.1  
*SMEs Definition by Size of Operation*

Category		Definition
<b>Services and Sectors SME</b>	<b>Other</b>	Small and medium enterprises in the services and other sectors with sales turnover not exceeding RM20 million OR full-time employees not exceeding 75 workers
<b>Manufacturing SME</b>		Small and medium enterprises in the manufacturing related services with sales turnover not exceeding RM50 million OR full-time employees not exceeding 200 workers

*Source:* Small and Medium Enterprises Corporation of Malaysia

For the purpose of this study, the SMEs are randomly selected from both type of SMEs as stated in Table 1.1 above. Johor Bahru was selected as the location for the study since it is one of the areas that have many SMEs; in fact, Johor Bahru is the city with the second highest number of SMEs after Klang Valley (Economic Census 2016, Department of Statistics Malaysia).



### 1.3 Problem Statement

Table 1.2 describes the comparison between the increase or decrease in non-receivable account for 2016 compared to 2015 by revenue type (RMCD Annual Report, 2016). The statistics indicate that the accounts uncollectible for GST is the highest increment from RM 778.12 million to RM 1,928.66 million (Import GST and Local GST).

Table 1.2  
*Increase / Decrease in RMCD Non-Receiveable Accounts for 2016 as Compared to 2015 by Revenue Type*

Revenue Type	Amount (RM / Million )		Percentage (%)
	2015	2016	
<b>Import GST</b>	<b>0.76</b>	<b>8.74</b>	<b>1046.20%</b>
<b>Local GST</b>	<b>777.36</b>	<b>1,919.92</b>	<b>146.98%</b>
The extraordinary profits levy	1.51	2.08	37.12%
Excise Duty	230.95	291.79	26.34%
Surcharge	1.43	1.67	16.36%
Anti-Dumping	0.49	0.56	14.85%
Import Duty	652.57	685.11	4.99%
Sales Tax Penalty	89.66	87.74	-2.15%
Import Sales Tax	111.93	108.52	-3.04%
Sales Tax	163.58	150.42	-8.05%
Service Tax Penalty	97.87	80.53	-17.72%
Export Duty	4.59	3.65	-20.34%
Services Tax	143.56	107.96	-24.80%
<b>TOTAL</b>	<b>2,276.27</b>	<b>3,448.69</b>	<b>51.51%</b>

Source: RMCD Annual Report 2016.

Besides that, the Ministry of Finance reported in the Dewan Rakyat that 37,556 compounds were issued by the RMCD for various offences related to the GST from 1 April 2015 to 17 February 2017 (Malaysian Parliament, 2017). The compounds were imposed as GST

registrants failed to display prices (inclusive of GST) and failed to submit the tax returns, tax payments, tax invoices and such other registration- related offences. Johor received the highest number of compounds with 8,104 cases, followed by Wilayah Persekutuan Kuala Lumpur (5,036) and Selangor (4,707) (The Star Online, March 2017).

From the report of the Ministry of Finance, it can be deduced that perhaps the taxpayers' surroundings may have influenced their non-compliance behaviour. This is evinced in a study by Misu (2011) which reported that tax compliance factors are divided into two categories: (i) economic factors, which include income levels, probability of an audit, tax audit, rate and benefits and penalty; and (ii) non-economic factors, which include the perception of taxes, personal norms, social and national factors and perceived fairness. These factors are related to and affect taxpayers' compliance behaviour. It is important to identify how tax compliance behaviour can be improved to enhance revenue for meeting public services expenditure without undue burden on the taxpayers.

In the current Government Transformation Programme (GTP), Malaysia has emphasized on the collection of GST to reduce the reliance on the petroleum-based revenue that run into decrease in the last few years (Miskam, Noor, Omar & Aziz, 2013). Whilst the successful collection of GST is reliant to the compliance of the taxpayers. However, research showed the reluctance of taxpayers to meet GST obligations resulting in the low level of compliance which subsequently causing loss in terms of monetary to the country. Whilst quoting a statement from the Deputy Director General of RMCD, Dato' Subromaniam Tholasy, one-third of the firms audited during the first two week in September 2016 were facing with compliance problems, especially relating to failure to provide accurate information in their GST returns. Major reasons for the faulty are caused by deficiency of knowledge, improper



guidance; and in some instances the revenues declared were relatively low. (theSundaily, September 2016).

The Customs Blue Ocean Strategy (CBOS) had been invented to primarily encourage taxpayers to comply with the GST law. Targeting to the sector of SMEs, the approach for this operation is “Informed Compliance” with the aim of assisting taxpayers as part of addressing the fairness of the implementation of GST laws. Informed compliance focuses on educating taxpayers by making friendly visits to traders to explain and assist them in complying with GST obligations and provides channels for taxpayers to share their grievances and enable them to provide feedback. The RMCD conducts handholding programmes and consultation sessions to achieve this. However, despite this approach of compliance, based from the RMCD’s past experience, GST compliance can only be increased when taxpayers are conscious that non-compliance would be detected and thus severe penalties will be imposed upon them accordingly (Kumar & Thomas, 2017). Hence, instead of employing the “Informed Compliance” approach, both of these researchers stressed on the approach of “Enforced Compliance” that focuses on litigation where errant taxpayers will be prosecuted.

To further understand the concept and how it relates directly to the effective implementation GST, this study examined GST compliance and the behaviour of the SMEs in meeting their GST obligations. This is due to the reason that the impact of attitudes and its change on the GST compliance are not well understood and studies on this area have not been widely conducted. The most common theories connected in this field are the Economic Theory of Compliance also referred to as Deterrence Theory. Principles of economic deterrence models were first discovered in the late 1960s from the work of Becker, who analysed illegal behaviour using an economic framework. Becker (1968) proposed a narrow argument which

implied that deterrents such as the probability of detection and penalties and sanctions, were within the control of society. Other theory that was adopted in this study is the Theory of Reasoned Actions (TRA). The TRA can be used to explain taxpayer's intention to comply with GST by predicting the behavioural performance from people's intentions (Ajzen & Fishbein, 1975).

In particular, this study investigates the most prominent compliance variables for their potential influence on compliance behaviour extracted from vast literatures revolving around the theories mentioned previously. The first compliance variable of interest is deterrence measures, which incorporates the imposition of severe penalties coupled with the enforcement procedures and the probability of detection. The second compliance variable of interest is attitudes towards compliance, which are reflected by the feelings of favour and disfavours towards compliance behaviour. The compliance variable of subjective norms which relate to the taxpayers' beliefs and norms in relation to their GST obligation are also accounted in the study. Other variables are the perception of fairness of the GST system and GST knowledge.

It is crucial to merge both perspectives of economic and psychological factors that could influence GST compliance intention amongst the SMEs in Malaysia. By doing so, the external factors are integrated in the study that will eventually provide overall understandings on the motivation of the SMEs to comply with GST.

#### **1.4 Research Questions**

This study aimed to answer the following research questions:

- (i) What is the level of GST compliance intention among the SMEs in Malaysia?



- (ii) What is the relationship between deterrence measures, attitude, subjective norm, perception of fairness of GST system, GST knowledge and GST compliance intention among SMEs in Malaysia?

### **1.5 Research Objectives**

The specific objectives of the study are:

- (i) To determine the level of GST compliance intention among the SMEs in Malaysia.
- (ii) To identify the relationship between deterrence measures, attitude, subjective norm, perception of fairness of GST system, GST knowledge and GST compliance intention among SMEs in Malaysia.

### **1.6 Significance of the Study**

Research on understanding factors explaining taxpayer compliance is appropriate and timely. Many developing countries are now re-focusing on taxation to reduce over dependency on aid or one source of revenue for development. As Malaysia endeavours to achieve the status of a developed nation by 2020, the country deals with varied tax-collection and revenue-generation issues. To lessen its vulnerable reliance on income from petroleum, which constitutes more than 40% of federal government revenue in 2014, the country replaced the sales tax and services tax (SST) with a GST. The government sought to achieve a steady source of revenue by broadening the tax base (Alappatt & Shaikh, 2014; Narayanan, 2014; Shaari, Ali & Ismail, 2015).

In terms of practical significance, this study examines the level of GST compliance intention among SMEs in Malaysia and the relationship between deterrence measures, attitude,

subjective norm, perception of fairness of GST system, GST knowledge and GST compliance intention among SMEs in Malaysia. Therefore, the findings of this study are expected to provide inputs to policy makers in decision making and developing strategies to improve GST compliance as well as enhancing voluntary compliance for the purpose of increasing the country's tax revenue. This study is hoped to contribute towards enriching knowledge by providing an insight on studies related to the nature of GST in Malaysia.

### **1.7 Scope and Limitation of the Study**

This study is carried out in the business environment of the SMEs in Malaysia who already registered under the GST system. This is because, based on the RMCD's past experience, non-compliance culture is more prevalent among smaller businesses (Kumar & Thomas, 2017). A number of SME taxpayers were selected as the representative sample of the study. Specifically, 396 SMEs from Johor Bahru were selected using convenience sampling.

The main objective of the study is to assess the level of GST compliance intention among these taxpayers and the factors affecting their compliance intention. GST compliance intention determinants of this study are limited to five variables that prior studies have indicated as the likely core determinants. The variables that are examined are deterrence measures, attitude, subjective norm, perception of fairness of GST system and GST knowledge.

Though significant findings were obtained, there are also limitations in this study. The first limitation is the location of the study. Samples were only taken from Johor Bahru, hence the findings should not be generalised to all GST taxpayers in Malaysia. Secondly, this study only focused on five independent variables namely deterrence measures, attitude, subjective

norm, perception of fairness of GST system and GST knowledge. There could be other factors that might contribute to such behaviour.

### **1.8 Organisation of the Dissertation**

The study is discussed in five chapters as follows: Chapter 1 covers the background, objectives, significance, scope and limitations of the study. Relevant literature on the variables are reviewed in Chapter 2. Chapter 3 presents the research methodology. Chapter 4 illustrates the findings of the study. Finally, Chapter 5 provides a summary of the findings and discussions on the relationship among the variables. Besides that, implications and limitations of the study are discussed and recommendations for future research are provided.



## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

To begin with, it is vital to review various theoretical and empirical studies on the research topic which had been done previously on the similar topic. This chapter covers literature on GST compliance and the factors of GST compliance intention namely deterrence measures (severity of penalties, enforcement procedures and probability of detection), as well as attitudes, subjective norms, perception of fairness of GST system and GST knowledge. Subsequently, a theoretical framework is formed based on the discussion.

#### **2.2 The Structure of Malaysian GST System**

Basically, GST is a form of indirect tax that is levied on the supply of goods and services at each stage in the supply chain from the supplier up to the retail stage of the distribution (Awaludin, Suhaimi, Bakar & Jaafar, 2015). The basic principle of GST follows that the amount of GST paid (input tax) at the previous stage can be deducted from the amount of GST charged (output tax) by the registered person at the next step in the supply chain. In other words, tax element does not become part of the cost of the product because GST paid on the business inputs is claimable (Hock & Yew, 2010).

The rate of GST imposed at present is 6%. At initial stage, persons having businesses with annual sales turnover which have exceeded a prescribed threshold of RM500,000 are compulsory to be registered under the GST. This is strictly important due to the reason that



only a registered person can charge and collect GST on the taxable supplies of goods and services made.

Once registered, businesses are required to charge and collect GST on the taxable supplies, instantaneously entitled to claim input tax credit and eligible to utilize facilities provided under the law. Therefore, the GST registrants are responsible to keep all of the records of input and output tax and ultimately report their liability in a predetermined taxable period. The GST registration is just the first step in being GST compliant. Thus, there are numerous process with current updates and developments in the GST regime that needed to be followed to be remained GST optimised and GST compliant.

The modernization of taxation system particularly GST is distinguishable through its self-policing features that permit the businesses to claim their input tax credit by way of automatic deduction in their accounting system. This facilitates the administrative procedures on the part of businesses and the Government. Having said that, the RMCD is being provided by the law with the discretion to enforce potentially harsh penalties for any GST non-compliance.

### **2.3 GST Compliance among the SMEs in Malaysia**

The SMEs have been well known for its significant role as an engine for an economic growth in most developing countries including Malaysia. According to the SMECorp, as of December 2016, the sector represent 98.5% from 907,065 business establishment which cut across all sizes and sectors. Despite its outstanding role and achievement, the SMEs particularly face various obstacles when trying to build capacity, mainly constrained by lack of resources to invest in improvements and upgrading their technologies (Zainol & Soon, 2017). Therefore, a new tax or fiscal policies, specifically the multi-stage GST will have a

significant impact on this group. While Kumar and Thomas (2017) stipulated that in meeting the GST obligations, businesses need to inset additional in their operations such as in obtaining proper professional advice, employing competent finance staff and investing in reliable GST software and ensuring proper GST compliance return. The anticipated high cost to comply with the GST obligations has been seen as major issues for SMEs on top of coping with their survival (Zainol & Soon, 2017). Thus, these businesses are prone to get involved in non-compliance in meeting their GST obligations. Supported by fact, SMEs in Malaysia involved in a broad spectrum of GST non-compliance especially having to commit an error in GST returns, claiming illicit refund and ignorant of deadlines (Kumar & Thomas, 2017).

#### **2.4 Theory of Compliance**

Since the institution of taxation system, compliance issues remain to be a topic of concerns. Contrary to compliance, the problems of tax non-compliance are as old as early history of taxes themselves which prove that taxes are not favoured by people (Marti et al., 2010). Numerous approaches including the most traditional approaches that focus on supervision, sanctions and administrative fines have become references for governments to heighten the level of compliance (Pope & Mohdali, 2010). However, as many research have been conducted in the field, sole reliance on the traditional approach is no longer relevant. Much of a research conducted on the tax compliance, be it direct or indirect tax have found that the antecedent of intention to comply with the tax law is contributed by various behavioural factors.

In the case of Malaysia, even though research on tax compliance have been tended by many researchers, only a few are paying attention to the indirect tax, particularly GST (Salleh, 2018). The Organisation for Economic Co-Operation and Development (OECD) has pointed



that both economic and psychological compliance variables should be taken into consideration in order to gain insight into factors influencing the intention to GST compliance amongst the taxpayers. Moreover, Trivedi and Shehata (2005) justified that in describing taxpayers' compliance behaviour, that is, the reasons why taxpayers comply and do not comply, there are broadly two classes of theories: economic based theories, which emphasize incentives, and psychology-based theories which emphasize attitude. Owing to this solid foundation, therefore this paper exploits the Economic Theory of Compliance (Economic Model of Deterrence) that elucidate the change in taxpayer compliance behaviour and the Psychological Theory of Compliance which include the Theory of Reasoned Actions that explained the dynamic change and varying levels of taxpayer compliance behaviour. The combination of both economic and non-economic theories provides an optimal solution to enhanced compliance (Devos, 2014).

#### **2.4.1 Economic Theory of Compliance: Economic Model of Deterrence**

People have tendency to take a variety of actions to not comply with their tax obligations, for example, interpreting tax rules to their own advantage (Gitaru, 2017). The determination of the extent of non-compliance in taxation system is therefore not straightforward (Slemrod, 2007). Allingham and Sandmo (1972) mentioned that there are many forms of actions for not complying with tax obligations with almost not even one general analysis could explain this situation. Nonetheless, a pure "cost-benefit" approach based on the economic model is established by the researchers to explain the reasons of why people comply or not comply with the tax laws. The economic model of deterrence developed by Allingham and Sandmo (1972) has always been used as a reference on the behavioural study of intention to compliance. According to the model's logic, people are behaving rationally in an economical way who seeks to maximise their utility and opt to evade tax if the expected benefit of

evasion outweigh the cost of evasion. While the OECD identifies that some typical benefits of tax evasion are the unpaid taxes, whereas typical costs are the risk of getting fined and the severity of the penalties or fines. In line with the study by OECD, this study is interested to adopt the deterrence measures of severity of penalties and the risk of detection (for non-compliance) to understand the GST compliance among the SMEs in Malaysia.

#### **2.4.2 Psychological Theory of Compliance and Theory of Reasoned Actions**

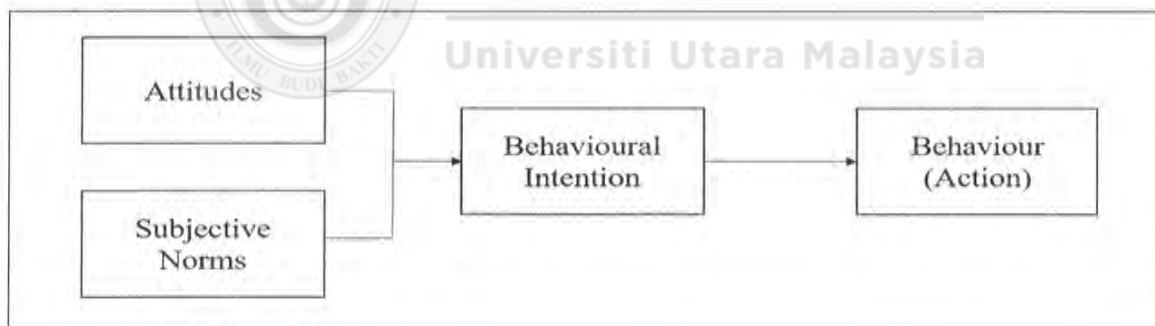
Due to the recognition that the pure economic deterrence model which concentrated greatly on utility maximisation had its limitations, the model has evolved over the last five decades with the growing interests to incorporate the non-economic factors. This is consistent with a study by Andreoni, Erard and Feinstein (1998) that called for more research exploring the various influencing factors of compliance behaviour from the field of psychological, moral and social science. Devos (2014) who highlights the deficiencies of the economic deterrence model had suggested a combination elements of economic deterrence model and social psychology model with the emphasis on tax moral, tax fairness or equity and deterrence measures. The basic principle of this approach is that individuals are not plainly independent utility maximisers, instead individuals interact and respond to norms that influenced their attitudes and beliefs (Devos, 2014).

There are many studies investigating the various behavioural situations using the Theory of Reasoned Action (TRA) (Chu & Wu, 2004; Hanno & Violette, 1996; Oliver & Bearden, 1985; Shimp & Kavas, 1984) as cited in Bidin, Shamsudin and Othman (2014). TRA hypothesizes two independent determinants of intentions i.e. attitude toward behaviour and subjective norms. According to Ajzen (1991), attitudes of an outcome are predisposed by a belief on the measurement of outcome. He then added that social pressures are the subjective norm of



which it has an inner force to stimulate an act of an individual. Accordingly, this underlie beliefs are regarded as normative belief. The normative beliefs, on the other hand are influenced by the belief of an individual to a referent other or referent group (Bidin et al., 2014). This statement denotes that the act of a people in a group is influenced by the belief behind the norms of that group (Cialdini & Trost, 1998). Hence, individual endeavoured to exert some action upon the belief that it is as important as it was thought by other people (Bidin et al., 2014). The application of the TRA is yet to be substantiated in the context of GST compliance intention especially among the SMEs in Malaysia despite its entireness in explaining social behaviour. Thus, the interest of this present study on GST compliance intention among the SMEs is carried out based on the TRA. Advertently, the theoretical relationships as advocated in the theory are shown in Figure 2.1 below.

Figure 2.1  
*Theory of Reasoned Action*



(Source: Ajzen & Fishbein, 1980)

## 2.5 GST Compliance Intention

As an outset, most research in the field used the term of tax compliance intention to generally refer to the compliance towards direct or indirect taxes. Therefore, in this present study, the terms of tax compliance intention and GST compliance intention will be used interchangeably. Correspondingly, tax compliance is a complex term to define. Brown and

Mazur (2003) indicated that the measurement of tax compliance is multi-faceted and theoretically, it can be distinct by assessing the types of compliance such as payment compliance, filing compliance, and reporting compliance. In consideration on the definition of tax compliance, Organisation for Economic Cooperation and Development (2001) advocates dividing compliance into categories of administrative compliance and technical compliance.

Tax compliance can be defined as taxpayers' willingness to obey tax laws to achieve the country's economic equilibrium (Andreoni, Erard, & Feinstein, 1998). A simpler meaning of tax compliance is defined as the most neutral term to describe taxpayers' willingness to pay their taxes (Kirchler, 2007). The definition further refined by Palil (2010) as taxpayers' willingness to comply with tax laws, declare the correct income, claim the correct deductions, relief, and rebates, and pay all taxes on time.

Studies concerning compliance behaviour, especially on indirect taxation, are scant in the tax literature. Many studies have focused on direct tax compliance, which can also be tailored to indirect tax compliance. In direct taxation, compliance means declaring all revenue and paying all taxes according to the law, rules and court decision (Alm, 1991). But the obligations of a GST registrant are different from direct taxation. GST compliance means GST registrants report their incomes voluntarily, calculate their tax liability accurately and file tax returns promptly. This tax compliance basically relates to the extent to which a GST registrant understands the four GST registrant obligation categories, which are:

- System registration;
- Filing or lodging of requisite taxation information on time;
- Reporting the correct and complete information (including good record keeping).



- Timely payment of tax.

When GST registrants fail to meet any of the obligations, they are considered as non-compliant (GST Regulations - Goods and Services Tax Act 2014). The focus in this study is on compliance to register as a GST tax licensee because this is the first step to ensure a GST registrant (after this called 'taxpayer') follows other compliance categories. Since the actual behavior of compliance is difficult to measure, this study uses GST compliance intention as a dependent variable in proxy for compliance behavior.

The basic measurement of tax compliance is based on the level of compliance starting from registering the business, reporting income correctly and paying tax accordingly within predetermined time. Alike, the successful collection of taxes can be measured through the high compliance to tax obligations in accordance with legitimate regulations of taxation (Margaretha & Tjen, 2016). From a technical point of view, the easiest measurement that can be used to evaluate tax compliance is through the calculation of tax to Gross Domestic Product (GDP) ratio even though the reliability is quite questionable due to the average for GDP coverage in each country may not be the same (Bain, Walpole, Hansford & Evans, 2015).

In order to identify influencing factors of tax compliance, one cannot avoid but to also integrate prior research on tax non-compliance. In addition to that, according to a study conducted by Webley, Adams and Elffers (2002), due to the absence of studies on the causes of GST non-compliance, the economic and psychological literature into income tax evasion (for example, Cowell, 1992; Elffers, 1991; Lewis, 1982; Webley, Robben, Elffers & Hessing, 1991) can be drawn to identify its explanatory factors. There are five factors that are

considered in this study: deterrence measures, attitudes, subjective norms, perception of fairness of GST system and GST knowledge.

## **2.6 Deterrence Measures and GST Compliance Intention**

The verdict of economic model follows that deterrence promotes compliance as taxpayers' non-compliance are discouraged. The most traditional methods of deterrence which had been used widely by the governments in the world are through the enforcement of laws and thus, deterrence in this context includes penalties, audits, risk of detection and risk of being caught. The economic deterrence model as aforementioned was originally adjusted from the model of criminal by Beekers (Slemrod, 2007). According to this model, taxpayers tend to contemplate the cost and benefit resulting a decision to evade. The level of their risk preferences determine the calculation of how much to evade.

Taxpayers as referred in this model were assuming their actions to evade tax as a game against nature (Bosco & Mittone, 1997). Numerous research imply that higher fines rate have more impact than the tax audit to enhance the compliance level (Friedland, Maital & Rutenberg, (1978), Christiansen (1980), Crane and Nourzard (1990), and Park and Hyun (2003). Additionally, higher penalties and audit probabilities could reduce non-compliance (Andreoni, Erard & Feinstein, (1998). While Hessing, Elffers, Robben and Webley, (1992) advocate findings that greater audit probabilities have more impact than higher penalties. Nevertheless, even though the findings from the studies are not uniform, these elements of deterrence adopted by various tax authorities around the world has been proven to be a powerful tool in improving compliance among the taxpayers. For the above reasons, the following hypothesis is tested.

**H1: Deterrence measures are positively related to GST compliance intention.**



## 2.7 Attitudes and GST Compliance Intention

According to theory of reasoned action, attitudes are perceived to have a direct effect on behavioural intention. Many researchers found attitudes to be a significant predictor of behavioural intention. Attitudes towards compliance are reflected by the feelings of favour and disfavour towards compliance behaviour Ajzen (1991). In the context of taxation, Hanno and Violette (1996) used TRA as a theoretical basis and reported that attitudes had a significant relationship with tax compliance intention. Similarly, Loo, McKerchar, and Hansford (2007) also reported that attitudes towards tax system positively influenced compliance behaviour. They hypothesized that a positive attitude towards the tax system would encourage taxpayers to comply with the obligations.

Predictively, taxpayers with positive perceptions of the tax system were more likely to have positive attitudes towards the tax system and consequently encourage them to comply. Breckler and Wiggins (1989) argued that affective attitude deals with emotions such as feeling happy, sad, or guilty when performing certain behaviour while instrumental attitude refers to a more cognitive consideration to which performing behaviour would be advantageous.

Damayanthi and Low (2016) conducted a study on the power of attitude towards tax compliance choice among individual taxpayers in Sri Lanka and used attitudinal factors as deliberation. According to their findings, in Sri Lanka, there is a very tight association between the taxpayers' attitude and tax compliance. In other words, taxpayers' attitude encourages tax compliance in Sri Lanka. Another study was conducted by Tonderai, Severino, Denver and Lilian (2014) on SME taxpayers' attitude and their compliance in Zimbabwe. Their findings reveal a strong and positive relationship between attitude and tax compliance

among owners or managers of retail operators in Gweru. Most SME taxpayers do not believe in the taxation system and VAT rates are considered to be too high. This is one of the reasons that contribute to noncompliance of tax regulations by the SMEs in the country. Based on the above discussion, it is reasonable that the following hypothesis is tested.

**H2: Attitudes towards GST are positively related GST compliance intention.**

## **2.8 Subjective Norms and GST Compliance Intention**

According to the theory of reasoned action, subjective norms have an influence towards the intention of certain behavioural. Subjective norms reflect motivation to conform to significant referents either to comply or not to comply with tax obligations. In previous studies investigating the relationship, many have found a significant effect of subjective norms on behavioural intention (such as Chu & Wu, 2004; Hanno & Violette, 1996; Oliver & Bearden, 1985)

In the context of taxation, Hanno and Violette (1996) found a significant and positive effect of subjective norms on behavioural intention. According to Bobek, Hageman and Kelihar (2013) social norms have important direct as well as indirect influences on tax compliance behaviour. Additionally, Grasmick, Bursik and Cochran (1991) found that taxpayers with strong values for cooperation, who anticipate shame and guilt in case of norm violation, are more compliant than taxpayers who do not anticipate these feelings.

Likewise, Bobek (1997) found that subjective norm significantly affected compliance behaviour in a business simulation scenario. Therefore, in the context of GST compliance behaviour, a study on GST compliance is yet to be executed by taking subjective norms as one of an important variable. Based on the literature, this study expects that subjective norms

will positively influence taxpayers to comply. Thus, it is reasonable that the following hypothesis is tested.

**H3: Subjective norms are positively related to GST compliance intention.**

## **2.9 Perception of Fairness of GST System and GST Compliance Intention**

The perception of fairness regarding tax system of one's country is vital to ensure proper functioning and acceptability. A tax system that fail to exhibit fairness such as biasness in imposing taxes to those with similar income or perhaps the government is seen as not giving back adequately in return will have an undesirable impact to the public consciousness (Webley, Adams & Elffers, 2002). Simultaneously, it has been claimed that how a person perceives his own role in the anticipation of perceived inequality can diverge the existing exchange relationship by evading taxes in order to counterbalance the disparity (Cowell, 1992).

In the case of GST implementation in Malaysia, Narayanan (2014) argued that the negative perception towards GST attributed to several causes. Concerns are mainly on its impact on the general price level, its regressive nature on lower income households, and possibility of rise in the GST rate over time, and that the GST revenue is used irresponsibly to mitigate problems in wasteful public spending and leakages. Kasipillai and Krever (2016) further highlight the negatively perceived fairness of GST associated with tax complexity might have an adverse impact on attitudes of the business community which subsequently increasing the occurrence of non-compliance. While it is backed by the facts that the costs of managing a tax system incurred by taxpayers in complying with their tax obligations which take account of the administrative costs for the government machinery to collecting its taxes in an efficient manner (Evans, 2008).



Aside, perception of fairness in some certain tax regime can also be viewed from a different perspective. In regards to deterrence factors, the fairness perception would as well be subverted by taxpayers who was charged inappropriately or fined due to the unintentional mistake and misinterpretations, given the ambiguous and complexity of tax laws (Kirchler, Hoelzl & Wahl, 2008). For the above reasons, the following hypothesis is tested.

**H4: The perception of fairness of GST system is positively related to the GST compliance intention**

## **2.10 GST Knowledge and GST Compliance Intention**

Acknowledging that the reporting of GST transactions by businesses is made through a self-assessment system, tax awareness plays an important role in influencing tax compliance among taxpayers. For that reason Palil (2013) claimed that the level of tax education and tax knowledge that raised tax awareness is significant to administer the complexities of GST. He added that at the very least, taxpayers need to possess a basic knowledge of tax in order to be a tax compliant. Sommerfeld (1966) concerned that the topics of taxation should be taught and further suggested that institution of higher education can offer a different perspective of tax subject to every student. The idea of inserting tax education into the academic curriculum in Malaysia is found in a paper from Barjoyai (1992) and Ho (1992). Aksnes (2011) described taxpayer education as a method of educating the people about the knowledge of tax, understanding the whole process in taxation and why they should hold responsible to pay tax.

The process of education encourages voluntary compliance amongst taxpayer by which it helps them to complete their tax obligations to the government. Tax laws are often misinterpreted due to its jargons and terminologies (McCaffery & Barron, as cited in Misu, 2011). Due to that reason, tax education is important to instil tax awareness from the early



stage of education for which it enables better understanding of the tax system and policies that will ultimately increase tax compliance (Kasipillai & Mustafa, 2000). Whilst taxpayers that possess high tax knowledge have a propensity to practice high ethical behaviour and consequently are more comply with tax laws (Song & Yarbrough, 1978).

The impact of tax knowledge on tax compliance was supported by a research done by Kasipillai, Aripin and Amran (2003) among the Malaysian undergraduates in the Universiti Teknologi Mara (UiTM). The research was conducted under the scope of individual income tax, however it is relevant as the main objective of this paper is to delve into the influencing role of tax education on tax compliance given the paucity of researches on the GST compliance. Nevertheless business is run by humans and their individual actions signify the whole of the organisation that they represented. Back to the sample of research paper was chosen on the realization that these students will be the future taxpayers for the country. The study with which its central focus is on tax avoidance and tax evasion had found that tax education have an influence towards the attitudes and mind sets of the students. These so-called future taxpayers were identified will likely to commit their obligations for the nation upon entering the job market. For the above reasons, the following hypothesis is tested.

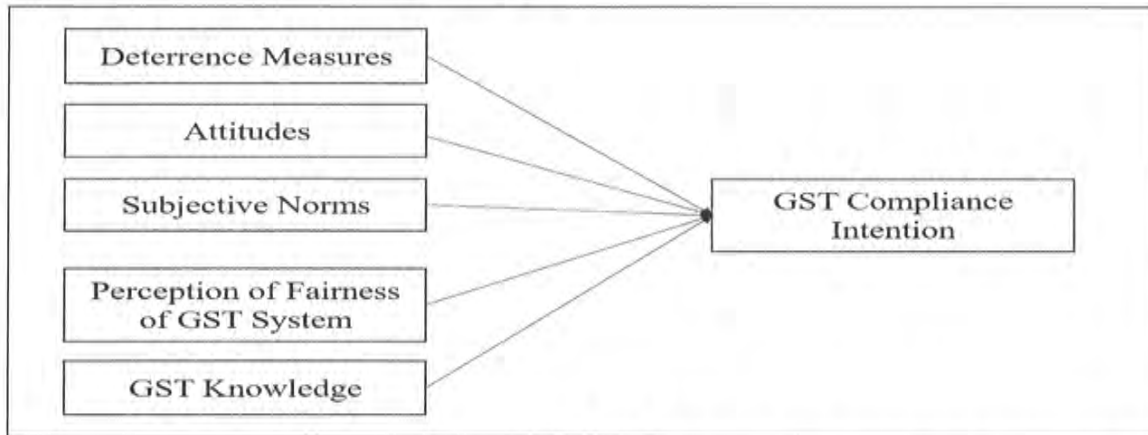
**H5: GST knowledge is positively related to the GST compliance intention**

## **2.11 Proposed Research Conceptual Framework**

By defining all of the abovementioned hypotheses, the proposed relationship between the independent and dependent variables are shown in the figure below.

Figure 2.2

*Proposed Research Conceptual Framework*



One dependent variable has been identified which is the GST compliance intention while there are five independent variables have been identified which are the deterrence measures, attitudes, subjective norms, perceptions of fairness of GST system and GST knowledge. These are the critical parameter which will be used in the following chapter to further investigate the relationship among them and they will be the central focus of this research.

## 2.12 Summary of the Chapter

The literature review chapter is ended with the research framework which is intended to evaluate the influence of deterrence measures, attitudes, subjective norms, perceptions of fairness of GST system and GST knowledge towards the GST compliance intention among the SMEs in Malaysia. This paper proposed a framework after the intensive study on the related literature and previous research that had been done on similar topic. In the following Chapter Three, the focus will be on the Research Methodology comprising of the collection of data and analysis.

## CHAPTER 3

### RESEARCH METHODOLOGY

#### 3.1 Introduction

Research methods in this chapter comprise research designs, research instruments and measurements for variables, populations, sampling and data collection procedures and data analysis techniques. The discussion contained in this chapter is going to be used to conduct the research about the influencing factors of GST compliance among the SMEs in Malaysia. This section also explains the results of pilot test that have been conducted.

#### 3.2 Research Design

This study details the association between deterrence measures, attitude, subjective norms, perceptions of fairness towards the GST system, GST knowledge and GST compliance between SMEs in Malaysia. The focus of this study is to ensure that factors affecting GST compliance intent among SMEs. The quantitative research design was used through the distribution of questionnaires to respondents. This study uses cross-sectional research designs where data collection is conducted at one time. RMCD Johor Bahru was chosen as an important component in this field of study. Johor Bahru was chosen as the location for the study because Johor Bahru is one of the districts with a large number of SMEs; In fact, Johor Bahru is the second largest SME after the Klang Valley. Additionally, Johor Bahru is also strategically located as it is the gateway to Malaysia for tourists and operators as well as affordable alternative routes to Singapore where higher cost of living.

### **3.2.1 Research Instrument and Measurement of Variables**

The survey questionnaire consists of two main parts: Part 1 and Part 2 prepared in English (Appendix A). Part 1 i.e. Section A - consists of the respondent's demographic profile, including age, gender, nationality, education background, type of business, business sector and duration of years in business. The objective of this part is to obtain the basic information of the respondent to co-relate with the part 2 questionnaire.

Part 2 consists of six sections, i.e. Section B - GST Compliance Intention, Section C - Deterrence Measures, Section D - Attitudes, Section E - Subjective Norms, Section F - Perception of Fairness of GST System and Section G - GST knowledge.

The Part 2 of the questionnaire is design to emphasis on the dependent and independent variables which had been defined in the earlier part of the research. The dependent variables is GST Compliance, while independent variables are deterrence measures, attitudes, subjective norms, perception of fairness on GST systems and GST knowledge. The purpose of this study is to identify and investigate the relationship between dependent and independent variables and then confirm or justify previously defined hypotheses.

In Part 2, (Section B – G), A five-point Likert scale was used where the respondents were asked to respond by ticking the appropriate number on the scale provided (1 = strongly disagree; 2 = disagree; 3 = neutral; 4 = agree; 5 = strongly agree). The example had been used to measure the dependent and independent variables. The example is shown in the figure below.



Figure 3.1  
The Example A five-point Likert Scale

1 Strongly Disagree	2 Disagree	3 Neutral	4 Agree	5 Strongly Agree
Statement			Scale	
I would fully report my sales income to comply GST			1	2 3 4 5
I would not attempt to cheat by omitting to report my income from sales to avoid GST			1	2 3 4 5
Paying the correct amount of GST is my civil duty			1	2 3 4 5
Paying the correct amount of GST is an important contribution to the development of Malaysia			1	2 3 4 5

Section B consists of four questions related to the respondent's intention to comply with GST Act 2014 and regulations. The higher the number, the higher the level of GST compliance intention among respondents. Sections C consists of five questions related to the of respondents' opinion about deterrence measures. The higher the number shows the higher influence of deterrence measure to the respondents.

Sections D and E consist of respondent's attitude towards GST compliance intention (four items) and their perception of Subjective Norms (five items), respectively. For attitude, the higher the number, the more favourable the respondent's attitude towards GST compliance. The interpretation for perception of Subjective Norms is that the higher the number, the more influence of subjective norms to the respondents.

Sections F consist of respondent's perception of fairness of GST System (five items). The items for question four were expressed in negative statements and were recoded for analysis. The higher the number (after recoding), the more positive perception about the fairness of GST System among respondents. The final section (Section G) consists of five questions

related to the respondent's general knowledge about GST. The higher the number, the higher the level of knowledge among respondents.

The measures of the variables employed in this study were adopted from Saad (2009) because she studied tax compliance behaviour as well. The Table 3.1 below shows the measurement that had been used in the questionnaire to measure the variables that had been defined in the previous chapter.

Table 3.1  
*Variables and Measurement*

Variables	Measurement
GST Compliance Intention (Section B)	<ol style="list-style-type: none"> <li>1. I would fully report my sales income to comply GST.</li> <li>2. I would not attempt to cheat by omitting to report my income from sales to avoid GST.</li> <li>3. Paying the correct amount of GST is my civil duty.</li> <li>4. Paying the correct amount of GST is an important contribution to the development of Malaysia.</li> </ol>
Deterrence Measures (Section C)	<ol style="list-style-type: none"> <li>1. The penalties imposed on the GST non-compliance are severe.</li> <li>2. I would pay the GST due to the existence of penalties.</li> <li>3. The likelihood of penalties and sanctions increase my intention to comply with GST.</li> <li>4. The RMCD enforced the GST system efficiently through frequent audits.</li> <li>5. The likelihood of audits and probability to be detected (non-compliance) encourage me to comply with GST</li> </ol>
Attitudes (Section D)	<ol style="list-style-type: none"> <li>1. I would be upset if did not report my sales income fully to comply GST.</li> <li>2. I would feel guilty if I do not declare my sales income to avoid GST.</li> <li>3. I would feel guilty if I underreport my sales income to avoid GST.</li> <li>4. I believe I have a moral obligation to report all my sales income to comply with GST.</li> </ol>
Subjective Norms (Section E)	<ol style="list-style-type: none"> <li>1. Most people who are important to me think that I should report all my sales income to comply with GST.</li> <li>2. Most people who are important to me would include all their sales income in their tax return to comply with GST.</li> <li>3. Generally, I would do what I believe most people who are important to me would do to comply with GST if they were in a similar situation.</li> </ol>



	<ol style="list-style-type: none"> <li>Most people who are important to me would not respect me if I underreport my sales income to avoid GST.</li> <li>I would be deterred from underreporting my sales income to avoid GST if I believe that I will lose the respect of most people who are important to me.</li> </ol>
Perception of Fairness of GST System <b>( Section F )</b>	<ol style="list-style-type: none"> <li>The Malaysian GST system is a fair system.</li> <li>Services offered by the Government are satisfactory.</li> <li>The Government efficiently manage the GST collected for the purpose of people's well-being.</li> <li>The service delivered from the Government is poor.</li> <li>All taxpayers are treated equally under the GST system.</li> </ol>
GST Knowledge <b>( Section G )</b>	<ol style="list-style-type: none"> <li>Information about GST licensee is easy to access.</li> <li>I know when to apply for GST license.</li> <li>I know how to apply for GST license.</li> <li>I have attended a tax awareness programmes or seminars on GST.</li> <li>RMCD provide me with sufficient information on the penalties regime.</li> </ol>

### 3.2.2 Population, Sampling and Data Collection Procedures

Based on Zikmund, Babin, Carr and Griffin (2010), target populations can be defined as individual groups whose samples can be taken. The population of this study is the SMEs who are registered as GST registrants. The total number of SMEs registered for GST in Malaysia as at 31 December 2017 is 434,322. According to the latest report dated December 31, 2017, SMEs business numbers in Malaysia are sorted according to RMCD and SMECorp of Malaysia reported as in Table 3.2.

Table 3.2.  
*Number of Registered SMEs (for GST) as at 31 December 2017*

<b>Manufacturing</b>	<b>Number of Registrants</b>	<b>Total Registrants</b>
Medium	3,311	
Small	44,164	53,332
Micro	5,857	
<b>Non-Manufacturing</b>	<b>Number of Registrants</b>	<b>Total Registrants</b>
Medium	62,177	
Small	279,304	380,990
Micro	39,509	
<b>Total SMEs</b>		<b>434,322</b>

Source: RMCD (2017)



This study uses a convenience sampling method. This convenience sampling is a method that gives the respondents an opportunity to participate in this study. In addition, convenience sampling is also the most appropriate method for collecting basic data or information efficiently in a short time, as well as cost-effective. Ramayah, Yusoff, Jamaluddin, and Ibrahim (2009) use the simple sampling method to obtain information on the intention of respondents paying taxes to use tax filing. Overall, sample size for this study was 396 respondents, selected from residents registered with GST in Johor Bahru. Sekaran (2003) guarantees that sample size greater than 30 and less than 500 is suitable for most researchers. Roscoe (1975) stated that there should be 10 samples for each variable. Hence, the 300 sample size chosen is adequate for this study as suggested by Sekaran (2003) and Roscoe (1975).

For data collection, questionnaires were distributed to GST payers who came to the GST kiosks, attend the handholding programmes and attend the consultation sessions at RMCD Johor Bahru from 1 March 2018 until 31 May 2018. The questionnaires were personally handed to the random respondents upon arrival and collected after they had completed the survey questions. This method allowed the researcher to gather first-hand information and any doubts faced by respondents were clarified on the spot.

### **3.3 Data Analysis Techniques**

Data analysis is a process whereby the researcher knows whether the proposed hypothesis is accepted or otherwise (Sekaran & Bougie, 2010). The collected data were analysed using the Statistical Package for Social Science (SPSS) version 23.0 software. Prior to further analysis, reliability and normality of data were tested and verified. Since the data were considered normally distributed, appropriate statistical tools were deployed. Five data analysis approach

are discussed in the following chapter which are descriptive analysis, reliability analysis, validity analysis, measurement model analysis and inferential analysis.

### **3.3.1 Descriptive Analysis**

Descriptive analysis provides the profile of the collected sample, such as mean, median, standard deviation and range of scores as well as information relating to the distribution of scores on continuous variables as well as the frequencies of the categorical variables. This information is needed to choose the right statistical techniques to analyse the data depending on the level of measurement and the nature of the data (parametric or non-parametric). Focusing on this study, descriptive analysis is used at the initial stage to analyze the first objective of the study. That is, to determine the level of GST compliance objectives among SMEs in Malaysia.

### **3.3.2 Reliability Analysis**

Reliability analysis refers to the fact that the rating scale must always reflect the construction measured by the results obtained and always be consistent with no major variation. It also aims to obtain reliable results from data collected through a quantitative research methodology and in this case is through questionnaire distribution. Cronbach Alpha ( $\alpha$ ) is a measure commonly used in reliability analysis. This measure value is equivalent to data limitations in two parts in each possible method and then calculates the coefficient of correlation for each split. The average of these values is the same as the alpha of Cronbach. Cronbach Alpha ( $\alpha$ ) from this study can be calculated via SPSS software where the measurement scale is between 0 (inconsistent) to 1 (complete consistent). According to Zikmund et al., (2010), the standard alpha coefficient ( $\alpha$ ) can be determined and calculated as follows:

Table 3.3:  
*Standard Coefficient Alpha ( $\alpha$ ) Definition*

Poor Reliability	Fair Reliability	Good Reliability	Very Good Reliability
$\alpha$ is less than 0.60	$\alpha$ is between 0.61- 0.70	$\alpha$ is between 0.71- 0.80	$\alpha$ is between 0.81-0.99

### 3.3.3 Validity Analysis

Validity is the extent to which any measuring instrument measures what it is intended to measure (Thatcher, 2010). Validity in data collection means that your findings truly represent the phenomenon you are claiming to measure. The validity test aims to examine whether the questionnaire content is appropriate for measuring what it wants to be measured and understood by all respondents indicated by the percentage of respondents' responses that are not too distorted from other respondents' responses. When the correlation of each factor is positive and its value exceeds 0.3 then it is a strong variable.

### 3.3.4 Measurement Model Analysis

The measurement model is the part of the model that examines relationship between the latent variables and their measures. The structural model is the relationship between the latent variables. In statistics, latent variables are variables that are not directly observed but are rather inferred (through a mathematical model) from other variables that are observed (directly measured).

### 3.3.5 Inferential Analysis

There are five independent variables and one dependent variable in this study. Inferential Analysis will try to conclude the data collected from the survey and extend it beyond the context of the data alone. Inferential Analysis will try to link the results collected through the questionnaire and use it to represent the thinking or opinion of the whole population through



statistical approach. By using Inferential Analysis, it can help to verify and explain the hypothesis that had been listed out in the Chapter Two through Pearson Correlation Coefficient, and Regression Analysis.

#### ***3.3.5.1 Pearson Correlation Coefficient***

In statistical procedure, the Pearson correlation coefficient is also known as  $r$  Pearson or the Pearson product moment correlation coefficient (PPMCC) or the bivariate correlation. The Pearson correlation coefficient aims to measure the linear correlation between dependent variables – GST compliance intention versus the independent variables of deterrence measure, attitude, subjective norms, perception of fairness of GST system and GST knowledge. The Pearson correlation coefficient ranges from +1 to -1, where 1 indicates a very positive linear correlation, 0 does not show linear correlation, while -1 indicates the perfect negative linear correlation value. Researchers can obtain Pearson correlation through SPSS software. Analytical results can be used to examine the relationship between dependent variables and independent variables. The summary below is an indicator of the importance of the relationship between all the variables involved in the study.

- $\pm 0.81$  to 1: Relationship is very strong
- $\pm 0.61$  to 0.8: Relationship is strong
- $\pm 0.41$  to 0.6: Relationship is moderate
- $\pm 0.21$  to 0.4: Relationship is weak
- $\pm 0.00$  to 0.20: Relationship is very weak

#### ***3.3.5.2 Multicollinearity***

In statistics, multicollinearity (also called collinearity) is a phenomenon in which one predictor variable in multiple regression models can be predicted linearly from the others

with high precision. Multicollinearities occur when independent variables in the regression model are attributed. This correlation is a problem because the independent variable must be free. If the correlation level between the variables is high enough, it can cause problems when you match the model and interpret the results. An easy way to track multicollinearity is to calculate correlation coefficients for all pairs of predictor variables. If the correlation coefficient,  $r$ , is equal to +1 or -1, this is called the perfect multicollinear. If  $r$  approaches or exactly -1 or +1, a variable must be removed from the model if possible.

### **3.3.5.3 Regression Analysis**

Regression analysis is a statistical approach to estimate the relationship between dependent variable and independent variables. Similarly, Multiple Regression Analysis is used to test the influence of more than one independent variables on dependent variable (Sekaran & Bougie, 2010). Multiple linear regressions were developed to test the importance of the relationship between all independent variables and dependent variable. This reflects the degree of effect of different autonomous variables, while other independent variables are maintained. The multiple regression equation of this study was written as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6$$

$Y$  = Dependent variable = GST compliance intention

$X_1$  = Deterrence measures

$X_2$  = Attitudes

$X_3$  = Subjective norms

$X_4$  = Perception of fairness of GST system

$X_5$  = GST knowledge

$\alpha$  = the intercept of the regression line or constant point where the straight line intersects the Y-axis when X equals to zero

$\beta$  = Regression coefficient for X

### 3.4 Pilot Study

Trial test through pilot study was conducted before actual survey was conducted. The pilot test is important for ensuring this study can be successfully conducted on a larger scale. A pilot test aims to assess the goodness of a measure and uncovers the weaknesses of the questionnaire before distributing to respondents. The pilot study also regulates how consistently a specific awareness is dignified. Thirty questionnaires were distributed and duly completed by the target respondents, i.e., SMEs who visited the RMCD WPKL office. The findings from pilot study are shown in Table 3.4 below.

Table 3.4:

*The Result of the Alpha Value for the Pilot Test as a Whole (n=30)*

No. Item	Item	Variables	Cronbach Alpha ( $\alpha$ ) value
1 – 7	Section A (Questions on Demographic Profile)	Age, Gender, Nationality, Education Background, Type of Business, Business sector, Duration of Years in Business	N/A
8 – 11	Section B (Questions on GST Compliance Intention)	(4 items)	$\alpha = 0.875$
12 – 16	Section C (Questions on Deterrence Measures)	(5 items)	$\alpha = 0.810$
17 – 20	Section D (Questions on Attitudes)	(4 items)	$\alpha = 0.955$
21 – 25	Section E (Questions on Subjective Norms)	(5 items)	$\alpha = 0.854$
26 – 30	Section F (Questions on Perceptions of Fairness of GST System)	(5 items)	$\alpha = 0.765$
31 – 35	Section G (Questions on GST Knowledge)	(5 items)	$\alpha = 0.924$



Results of the pilot test in this study shows that the reliability value index of Cronbach's is between  $\alpha = 0.652$  (satisfied) to 0.955 (acceptable) with positive correlation. It is a norm for a survey instrument to be tested for its reliability before using it in a full scale survey. Usually the reliability of a multiple-item survey instrument is measured for its internal consistency reliability which is most commonly measured using the Cronbach's coefficient alpha. (Hayes, 1998).

The set of items usually has a coefficient measure unit which varies from 0 to 1. Among the academic researchers the Cronbach's coefficient Alpha analysis result is accepted as a sufficient tool for assessing the reliability of scales in a particular questionnaire survey instrument (Santos, 1999). In determining an acceptable and good level of the coefficient reliability of a survey instrument based on the general rule of a good coefficient reliability, should be at least 0.65. (Pallant, 2001).

Upon conducting the pilot study as detailed in Table 3.4 above which is able to determine the Cronbach Alpha values of the variables before proceeding to use the instrument. The result of pilot study test can be summarized as shown above. With the value of Cronbach Alpha greater than 0.7 for the variables selected for investigation as shown in the Table 3.4 above, the researcher is able to proceed to use the instrument as it indicates strongly reliable and as such can be used for data collection as intended to complete this study.

### **3.5 Summary of the Chapter**

On the whole, the crucial part of the research lies in chapter 3 which is the research methodology as it will be used to solve the research problems systematically. The discussion in this chapter surround topics on the research design, data collection method, the sampling

design, research instrument, the construct measurement, the process of data processing and finally the approach to perform the data analysis. By finalizing and confirming the research methodology, the research is all set and ready to commence. Questionnaire can be distributed to the designated sampling population and once all the data had been collected, the data can be processed according to schedule and the analysis results can be published and explain scientifically. The detailed output of the data analysis is discussed further in Chapter Four.



## CHAPTER 4

### DATA ANALYSIS AND FINDINGS

#### 4.1 Introduction

This chapter presents results and interpretation of data analysis. The findings are grouped into two different sections: First section will detail the results of descriptive part of the initial data analysis, data screening, missing data diagnosis, normality test and the demographic profile of the respondents under study and the reliability test of each construct and evaluation of outliers is also presented hereby. The measurement model is analyzed with coefficient correlation in sections one because this section focuses on the results of the multivariate data analysis through correlation. The second section will present the multiple regression results because this section aims to test the hypotheses and discuss the relationship among the variables with regression model analysis.

Data analysis is divided into two sections; preliminary analysis and multiple regression modeling. The initial steps at the beginning of the analysis are to assess the impact of missing data, identify outliers and test the assumptions that underlie the multivariate method used (Hair, Black, Babin & Anderson, 2010). Hence, this will help to screen the accuracy of data entered. The next section of data analysis will comprise of the two approaches of multiple regression modeling process (Anderson & Gerbing, 1988). These two stages of multiple regression are included in this research. The first step will consider all the individual constructs combined to form an overall measurement model. Other highlights of this step is assessment of unidimensionality for all the latent variables, model respecification and test of reliability and validity to examine the model fit (Hair et al., 2010; Kline, 2011). The second



stage aims to test the hypothesis connected to each of the variables representing a relationship. This step of multiple regression facilitates to measure all the assumed relationship simultaneously (Hair et al., 2010).

## 4.2 Response Rate

A total of 600 questionnaires were administered to GST taxpayers who came to the GST kiosks, attended the handholding programmes and attended the consultation sessions at RMCD Johor Bahru from 1 March 2018 until 31 May 2018. The questionnaires were personally handed to the random respondents upon arrival and collected after they had completed the survey questions. This method allowed the researcher to gather first-hand information and any doubts faced by respondents were clarified on the spot. Table 4.1 shows that out of the 600 questionnaires, only 396 respondents completely answered the questionnaires, giving a response rate of 66%. The 204 questionnaires are sufficient and represent a valid rate for analysis (Sekaran, 2003).

Table 4.1:  
*Response Rate*

Questionnaire	Frequency	Percentage
Total Questionnaires Distributed	600	100%
Returned	396	66%
Not Returned	204	34%
Complete	396	66%

## 4.3 Summary of Respondent's Profile

Table 4.2 gives the exact breakage of the characteristics of the respondents. Out of 396 total useable samples, 183 are male 213 are female respondents. This gives a higher ratio of male participants with 46.2% compared to female with 53.8% responses. The average ages of the

respondents are 31-40 age group has 43.7% of respondents, 20-30 ages has 35.9% of respondents and 11.4% participants were in the age group 41 years old and above.

Regarding the education level of the respondents it is seen that most of the respondents are diploma holder with 44.4% followed by respondents with bachelors represented by 41.2%. The SPM holder respondents with 12.1% are in third place. Lastly, master's degree holder respondents with 2.3%.

This investigation shows that the business type of the collected sample is distributed from company with 90.7%. The sole proprietor group with 4.5%, then 1.5% shows type of partnership, followed by other with 3.3%.

Regarding the collected samples of business sector, it is reflected that most number of respondents are in manufacturing sector represented by 58.8%, which is followed by service sector with 16.7%. The next is represented by trading sector with 12.9%. The remaining respondents belongs to other sector as 3.5%, construction with 6.1%, and retailing sector is represented with minor portion of 2.0%.

Additionally, the information regarding the duration of year in business of the respondents are being collected. This information highlights that 38.4% of the respondents had 7 years and above business experience; this is followed by marginally less value 28.3% represents respondents had 4-6 years business experience. 1-3 years of business experience is 24.2%, whereas less than 12 months have only few respondents with 9.1%.

Table 4.2  
Demographic Profile of the Respondents

Demographic profile	Number of respondents n=396	Valid percentage (%)
<b>Gender</b>		
Male	183	46.2
Female	213	53.8
<b>Age</b>		
Below 20	36	9.1
20-30	142	35.9
31-40	173	43.7
41 and above	45	11.4
<b>Nationality</b>		
Malaysian	381	96.2
Others	15	3.8
<b>Education background</b>		
Diploma	176	44.4
Bachelor's Degree	163	41.2
Master's Degree	9	2.3
Other	48	12.1
<b>Type of business</b>		
Company	359	90.7
Sole Proprietor	18	4.5
Partnership	6	1.5
Professional	0	0
Other	13	3.3
<b>Business Sector</b>		
Manufacturing	233	58.8
Retailing	8	2.0
Trading	51	12.9
Service	66	16.7
Construction	24	6.1
Other	14	3.5
<b>Duration of Years in Business</b>		
Less than 12 months	36	9.1
1-3 years	96	24.2
4-6 years	112	28.3
7 years and above	152	38.4

#### 4.4 Evaluation of Outliers

Outliers are monitoring data that has unique properties and looks very far from other data and appears in extreme value for either a single variable or combination (Hair et al., 1995 as cited in Ferdinand, 2002). Outliers can be seen by looking at the SPSS analysis output in the farthest observations section of the centroid (Mahalanobis distance). According to Santoso



(2007), a data has outliers if having  $\rho_1$  and  $\rho_2$  less than 0.05. However, according to Ferdinand (2002), the test of multivariate outliers was performed using Mahalanobis distance criteria at  $p < 0.001$ . The Mahalanobis distance was assessed using  $\chi^2$  degrees of freedom as the number of variables used in the study.

This study uses 35 indicators. Therefore, all data having a Mahalanobis Distance greater than  $\chi^2(35, 0.05) = 49.8$  are multivariate outliers. (Refer Table of Critical Chi-Square values, page 44). Outliers test results can be seen in Table 4.3

Table 4.3  
*Test Results Based on Observations of Farthest the Centroid (Mahalanobis Distance)*

Observation number	Mahalanobis d-squared	p1	p2
34	48.975	.016	.000
2	48.671	.017	.000
5	48.369	.018	.000
24	46.995	.023	.000
36	46.431	.026	.000
27	46.074	.028	.000
6	45.401	.031	.000
17	44.969	.034	.000
12	44.602	.036	.000
14	44.576	.037	.000
33	44.463	.037	.000
20	43.265	.046	.000
22	43.232	.047	.000
19	43.182	.047	.000
3	42.995	.049	.000

Based on Table 4.3 it can be seen that all data has a Mahalanobis Distance which is smaller than 49.8 so, there is no outliers data.

**Table of critical Chi-Square values:**

df	$p = 0.05$	$p = 0.01$	$p = 0.001$
1	3.84	6.64	10.83
2	5.99	9.21	13.82
3	7.82	11.35	16.27
4	9.49	13.28	18.47
5	11.07	15.09	20.52
6	12.59	16.81	22.46
7	14.07	18.48	24.32
8	15.51	20.09	26.13
9	16.92	21.67	27.88
10	18.31	23.21	29.59
11	19.68	24.73	31.26
12	21.03	26.22	32.91
13	22.36	27.69	34.53
14	23.69	29.14	36.12
15	25	30.58	37.7
16	26.3	32	39.25
17	27.59	33.41	40.79
18	28.87	34.81	42.31
19	30.14	36.19	43.82
20	31.41	37.57	45.32
21	32.67	38.93	46.8
22	33.92	40.29	48.27
23	35.17	41.64	49.73
24	36.42	42.98	51.18
25	37.65	44.31	52.62
26	38.89	45.64	54.05
27	40.11	46.96	55.48
28	41.34	48.28	56.89
29	42.56	49.59	58.3
30	43.77	50.89	59.7
31	44.99	52.19	61.1
32	46.19	53.49	62.49
33	47.4	54.78	63.87
34	48.6	56.06	65.25
35	49.8	57.34	66.62
36	51	58.62	67.99

#### 4.5 Reliability Test

Reliability test is aimed at measuring the reliability of an instrument through Cronbach Alpha coefficient test. This test states that the value of an instrument is believed to be reliable when the value of Cronbach Alpha  $\geq 0.6$ . The results of this reliability test can be seen in Table 4.4.

Table 4.4 :  
*Reliability Test Result*

Construct	Cronbach Alpha
Deterrence Measure	0.888
Attitude	0.952
Subjective Norms	0.937
Perception of Fairness of GST System	0.719
GST Knowledge	0.931
GST Compliance Intention	0.921

Based on Table 4.4 above it is known that the Cronbach Alpha of these instruments exceeds the value of 0.65. This indicates that the measurements are reliable and can provide consistent results when measured on the same subject.

#### 4.6 Validity Test

The validity test aims to examine whether the questionnaire content is appropriate for measuring what it wants to be measured and understood by all respondents indicated by the percentage of respondents' responses that are not too distorted from other respondents' responses. When the correlation of each factor is positive and its value exceeds 0.3 then it is a strong variable. This test of validity can be seen in Table 4.5



Table 4.5 :  
Validity Test Result

Construct	Indicator	Correlation	P value
<b>Deterrence Measure</b>	C1	0.589	0.000
	C2	0.817	0.000
	C3	0.852	0.000
	C4	0.812	0.000
	C5	0.731	0.000
<b>Attitude</b>	D1	0.845	0.000
	D2	0.902	0.000
	D3	0.902	0.000
	D4	0.834	0.000
<b>Subjective Norms</b>	E1	0.678	0.000
	E2	0.812	0.000
	E3	0.844	0.000
	E4	0.864	0.000
	E5	0.818	0.000
<b>Perception of Fairness of GST System</b>	F1	0.756	0.000
	F2	0.790	0.000
	F3	0.756	0.000
	F4	0.711	0.000
	F5	0.854	0.000
<b>GST Knowledge</b>	G1	0.846	0.000
	G2	0.887	0.000
	G3	0.911	0.000
	G4	0.847	0.000
	G5	0.895	0.000
<b>GST Compliance Intention</b>	B1	0.727	0.000
	B2	0.782	0.000
	B3	0.834	0.000
	B4	0.797	0.000

Table 4.5 shows that this research instrument has a product moment score of more than 0.3 with a confidence level of less than 5% so that each item in the instrument is said to be valid.

#### 4.7 Measurement Model

Measurement model is a modeling process in research aimed at investigating the unidimensionality of the indicators that describe a latent factor or variable. There are two basic tests:

**a) Model Suitability Test**

The parameters (regression coefficient, variance and covariance) in the multiple regression operation will be estimated to produce estimated population covariance matrix. When the developed model is in good condition, that is appropriate or match, the estimator parameter will produce an estimated covariance matrix close to the sample covariance matrix.

The decision-making policy is based on the following features:

- If  $p \geq 0.05$  there is no significant difference between the covariance matrix of the population distributed with the sample covariance matrix.
- If  $p \leq 0.05$  there is a significant difference between the population covariance matrix estimated with the sample covariance matrix.

Here is reported data processing result using SPSS version 23.0 over all variables:

Table 4.6  
*Suitability Test Result*

Item	Estimate	S.E.	C.R.	P
Item 1<--- GST Compliance Intention	1.000			
Item 2<--- GST Compliance Intention	.931	.040	23.302	***
Item 3<--- GST Compliance Intention	.929	.038	24.317	***
Item 4<--- GST Compliance Intention	.862	.037	23.537	***
Item 1<--- Deterrence Measure	1.000			
Item 2<--- Deterrence Measure	1.786	.400	4.468	***
Item 3<--- Deterrence Measure	1.796	.396	4.536	***
Item 4<--- Deterrence Measure	1.264	.290	4.359	***
Item 5<--- Deterrence Measure	1.393	.324	4.296	***
Item 1<--- Attitude	1.000			
Item 2<--- Attitude	1.329	.176	7.570	***
Item 3<--- Attitude	1.334	.178	7.501	***
Item 4<--- Attitude	1.156	.176	6.555	***
Item 1<--- Subjective Norms	1.000			
Item 2<--- Subjective Norms	.985	.043	22.817	***

Item	Estimate	S.E.	C.R.	P
Item 3<--- Subjective Norms	1.065	.039	27.604	***
Item 4<--- Subjective Norms	1.079	.044	24.469	***
Item 5<--- Subjective Norms	1.021	.048	21.268	***
Item 1<--- Perception of Fairness of GST System	1.000			
Item 2<--- Perception of Fairness of GST System	1.061	.059	17.850	***
Item 3<--- Perception of Fairness of GST System	.986	.057	17.290	***
Item 4<--- Perception of Fairness of GST System	.303	.071	4.245	***
Item 5<--- Perception of Fairness of GST System	.998	.063	15.912	***
Item 1<--- GST Knowledge	1.000			
Item 2<--- GST Knowledge	1.169	.051	22.786	***
Item 3<--- GST Knowledge	1.197	.054	22.135	***
Item 4<--- GST Knowledge	1.106	.059	18.686	***
Item 5<--- GST Knowledge	.990	.055	18.088	***

The Unidimensionality of all dimensions (28 items) in table 4.6 above is tested through coefficient correlation analysis. P value for all items is  $p \leq 0.05$ , showed there were a significant difference between the population covariance matrix estimated with the sample covariance matrix.

#### b) Test of Weight Factor

The second test that can be done is a weight test for all observed indicators in forming the analysed factors. This test is similar to the t-test to the regression weight as shown in Table 4.7

Table 4.7  
*Regression Weights: (Group number 1 - Default model)*

Item	Estimate	S.E.	C.R.	P
Item 1<--- GST Compliance Intention	1.000			
Item 2<--- GST Compliance Intention	1.192	.055	21.533	***
Item 3<--- GST Compliance Intention	1.222	.058	21.139	***
Item 4<--- GST Compliance Intention	1.253	.058	21.466	***
Item 1<--- Deterrence Measure	1.000			
Item 2<--- Deterrence Measure	1.028	.058	17.707	***
Item 3<--- Deterrence Measure	.933	.056	16.761	***



Item	Estimate	S.E.	C.R.	P
Item 4<--- Deterrence Measure	.856	.058	14.831	***
Item 5<--- Deterrence Measure	.914	.057	15.909	***
Item 1<--- Attitude	1.000			
Item 2<--- Attitude	1.191	.083	14.282	***
Item 3<--- Attitude	1.097	.050	22.051	***
Item 4<--- Attitude	.957	.073	13.149	***
Item 1<--- Subjective Norms	1.000			
Item 2<--- Subjective Norms	2.582	.438	5.894	***
Item 3<--- Subjective Norms	3.005	.903	3.326	***
Item 4<--- Subjective Norms	2.582	.781	3.305	***
Item 5<--- Subjective Norms	.671	.041	16.251	***
Item 1<--- Perception of Fairness of GST System	1.000			
Item 2<--- Perception of Fairness of GST System	1.016	.027	37.140	***
Item 3<--- Perception of Fairness of GST System	.793	.036	21.927	***
Item 4<--- Perception of Fairness of GST System	.728	.041	17.763	***
Item 5<--- Perception of Fairness of GST System	.884	.034	25.759	***
Item 1<--- GST Knowledge	1.000			
Item 2<--- GST Knowledge	.959	.083	11.611	***
Item 3<--- GST Knowledge	.818	.067	12.277	***
Item 4<--- GST Knowledge	.590	.070	8.415	***
Item 5<--- GST Knowledge	.656	.054	7.211	***

The required factor loading rate (estimate) must reach  $\geq 0.40$ . Factor loading for all latent variables shows the number  $\geq 0.40$ , it can be concluded that the indicators of all constructs together result in unidimensionality for all latent variables. In addition the critical ratio (C.R)  $\geq 2.0$  indicates that the indicator is the dimension of the established latent factor.

#### 4.8 Descriptive Analysis

To analyse the independent variable and dependent variable, descriptive analysis was used. Descriptive statistics show mean, minimum, maximum and standard deviation values. The results of descriptive statistics of the five tax compliance intention were tested. The results of the descriptive analysis of the independent variable and dependent variable are shown in Table 4.8 below.

Table 4.8  
Descriptive Statistics

n=396	Minimum	Maximum	Mean	Std Deviation
GST Compliance Intention	1	5	3.952	.831
Deterrence Measure	1	5	3.732	.858
Attitude	1	5	3.737	.836
Subjective Norms	2	5	3.684	.741
Perception of Fairness of GST System	1	5	3.320	.841
GST Knowledge	1	5	3.502	.922

The mean score for GST compliance intention is 3.952 and standard deviation is 0.831. This implies that an above average number of GST registrants are willing to comply with tax laws, declare the correct income, claim the correct input tax, and pay all taxes on time. The level of GST compliance intention seems high among respondents. Therefore, this finding provides the answer to the first research question regarding the level of GST compliance intention among the SMEs in Malaysia.

The means score of attitude is 3.737 and standard deviation is 0.836, indicating that on average, respondents have awareness of their GST obligations and are ready to comply with GST laws and regulations; however, many do not comply. The mean score of deterrence measures is 3.732 whereas standard deviation is 0.858. This shows that on average, respondents concluded that the deterrence measures will encourage them to comply with GST laws and regulations. The means score of subjective norms is 3.684 and standard deviation is 0.741, indicating that on average, the respondents were influenced by subjective norms to motivate them to comply with tax obligation. GST knowledge has a mean of 3.502 while standard deviation is 0.922. This indicates that on average, GST registrants are knowledgeable about GST system as a whole and know what is required from them, The level of GST knowledge seems high among respondents. The means score of perception of fairness of GST system is 3.32 and standard deviation is 0.841. This shows that on average,



respondents feel that the GST system is a fair system and all taxpayers are treated equally under the system.

#### **4.9 Statistical Analysis**

To test the hypotheses and answer the research questions, the researcher used statistical analysis. The distribution of data was confirmed by normality test. The normality test was done to decide whether to use parametric or non-parametric analysis to answer the second research question and to test the hypotheses. This study used a parametric test, i.e., Pearson Correlation and Multiple Regression Analysis to answer the second research question and to test the hypotheses.

##### **4.9.1 Normality Test**

One of the very basic assumptions in multivariate analysis is to verify the normality of the data in hand. If the variability is larger than the data, it is not expected to produce consistent results from further analysis. However, Hair et al, (2010) has suggested researchers to be less concerned about a non-normal data if the sample size is sufficiently large (greater than 200). Never the less this research will examine the normality of the data by using SPSS version 23.0 through skewness, kurtosis, minimum, maximum and critical ratio. Table 4.9 shows the normality measurement results for all the variables and constructs under study. A normally distributed data will have the score as zero for skweness and kurtosis. However, the degree of non-normality can be measured with the critical value  $\pm 2.58$  at 0.01 significance level and  $\pm 1.96$  at 0.05 significance level (Hair et al., 2010).



Table 4.9:  
*Assessment of Data Normality*

Variable	min	max	skew	c.r.	kurtosis	c.r.
Age	1	4	-.109	.123	-.461	.245
Gender	1	2	-.153	.123	-1.987	.245
Nationality	1	2	4.860	.123	21.728	.245
Education Background	1	4	1.193	.123	.544	.245
Type of Business	1	5	4.210	.123	17.365	.245
Business Sector	1	6	.864	.123	-.646	.245
Years in Business	1	4	-.476	.123	-.953	.245
B1	1	5	-.841	.123	1.378	.245
B2	1	5	-1.238	.123	2.604	.245
B3	1	5	-.856	.123	1.112	.245
B4	1	5	-.857	.123	1.595	.245
C1	1	5	-.463	.123	.612	.245
C2	1	5	-.755	.123	.893	.245
C3	1	5	-.728	.123	.600	.245
C4	1	5	-.615	.123	.886	.245
C5	1	5	-.427	.123	.569	.245
D1	1	5	-.835	.123	1.430	.245
D2	1	5	-.712	.123	1.071	.245
D3	1	5	-.885	.123	1.342	.245
D4	1	5	-.673	.123	.999	.245
E1	2	5	-.439	.123	.231	.245
E2	1	5	-.264	.123	.130	.245
E3	2	5	.050	.123	-.416	.245
E4	2	5	-.002	.123	-.484	.245
E5	1	5	-.038	.123	-.096	.245
F1	1	5	-.692	.123	.689	.245
F2	1	5	-.638	.123	.568	.245
F3	1	5	-.409	.123	.857	.245
F4	1	5	-.311	.123	.225	.245
F5	1	5	-.869	.123	.825	.245
G1	1	5	-1.028	.123	1.254	.245
G2	1	5	-.807	.123	.859	.245
G3	1	5	-.708	.123	.580	.245
G4	1	5	-.722	.123	.679	.245
G5	1	5	-.484	.123	.389	.245
Multivariate					2.646	0.825

Based on Table 4.9 above it can be seen that univariate data has a normal dispersion. It is seen from its critical ratio of skewness which is between cut off value  $\pm 2.58$ . However,

multivariate, the data distribution has not spread normally because the multivariate number is  $2.646 > 2.58$ .

Since the result of Normality Test proves that the distribution of data collected is normal then this study can use a parametric test, i.e., Pearson Correlation and Multiple Regression Analysis to answer the second research question and to test the hypotheses.

#### **4.9.2 Correlation Analysis**

Correlation analyses were channeled initially to test the association between the independent variables (deterrence measures, attitudes, subjective norms, perceptions of fairness of GST system and GST knowledge) and the dependent variable (GST compliance intention) among SMEs. The data in this study are normally scattered. Thus, this study is suggested to employ Pearson correlation coefficient test to identify the association between the variables as presented in Table 4.10 below. The result shows that GST compliance intention is significantly correlated to deterrence measures, attitudes and subjective norms with correlation values ranging from 0.218 and 0.695. The highest correlation between the dependent and independent variables is between GST compliance intention and attitude with a value of 0.695.

Table 4.10:  
Pearson Correlation Coefficient Analysis, ( $n = 396$ )

	Deterrence Measure	Attitude	Subjective Norms	Perception of Fairness of GST System	GST Knowledge	GST Compliance Intention
Deterrence Measure	1.000					
Attitude	.653	1.000				
Subjective Norms	.212	.216	1.000			
Perception of Fairness of GST System	.073	.100	.327	1.000		
GST Knowledge	.160	.127	.282	.536	1.000	
GST Compliance Intention	.627**	.695**	.218**	.070	.085	1.000

\*\* . Correlation is significant at the 0.01 level (2-tailed)

#### 4.9.3 Multicollinearity Analysis

Based on Table 4.10 above, (Pearson correlation coefficient analysis), shows that there is no multicollinearity problems. The degree of correlation between independent variables is acceptable. An easy way to track multicollinearity is to calculate correlation coefficients for all pairs of predictor variables. If the correlation coefficient,  $r$ , is equal to +1 or -1, this is called the perfect multicollinear. If  $r$  approaches or exactly -1 or +1, a variable must be removed from the model if possible. The result shows that the degree of correlation between deterrence measures, attitudes, subjective norms, perceptions of fairness of GST system and GST knowledge to each other with correlation values ranging from 0.073 and 0.653.



#### 4.9.4 Multiple Regression Analysis

This study utilised a standard multiple regression to investigate the overall effect of the independent variables on GST compliance intention and to determine the most significant explanatory variables that influence the dependent variable.

In multiple regression the mean response of each constructs were first computed before proceed to the analysis. For each of the following paths, the significance of independent variable(s) towards its' corresponding dependent variable were determined by using multiple linear regression.

Table 4.11:  
*Multiple Regression Analysis (n = 396)*

Coefficients					
Independence variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.958	.226		4.235	.000
Deterrence Measure	.302	.051	.284	5.912	.000
Attitude	.465	.046	.478	10.000	.000
Subjective Norms	.053	.045	.046	1.192	.234
Perception of Fairness of GST System	.059	.057	.046	1.051	.294
GST knowledge	-.064	.041	-.069	-1.554	.121
Dependent Variable: GST compliance intention					
$r^2$					.490
Adjusted $r^2$					.488
F Statistic					9.477

In multiple regression analysis shown that, two independent variables (Deterrence Measure and Attitude) have significant contribution towards dependent variable (GST compliance

intention). Three independent variables (Subjective Norms, Perception of Fairness of GST System and GST knowledge) have no significant contribution towards dependent variable (GST compliance intention).

#### 4.10 Summary of Hypotheses Testing

In a total of 5 hypothesised statements, the results are found to support two hypotheses tested in this study. There were H1, and H2. Three hypotheses were not supported there were H3, H4 and H5. Table 4.12 shows the direct hypothesis effect to present all the hypothesis results reported in this study. The implications of these findings are discussed in details in chapter five.

Table 4.12:  
*Direct Effect Hypotheses Testing*

	<b>Hypothesis path</b>	<b>Direct hypothesis</b>	<b>Result</b>
H1	Deterrence Measure → GST compliance intention	There is a significant relationship between Deterrence Measure towards GST compliance intention	<b>Supported</b>
H2	Attitude → GST compliance	There is a significant relationship between attitude towards GST compliance intention	<b>Supported</b>
H3	Subjective Norms → GST compliance intention	There is a significant relationship between Subjective Norms towards GST compliance intention	<b>Not Supported</b>
H4	Perception of Fairness of GST System → GST compliance intention	There is a significant relationship between Perception of Fairness of GST System towards GST compliance intention	<b>Not Supported</b>
H5	GST knowledge → GST compliance intention	There is a significant relationship between GST knowledge towards GST compliance intention	<b>Not Supported</b>

#### **4.11 Summary of the Chapter**

Based on MLR analysis, this section will discuss the results of the calculations. This research is aimed to find out the influence of deterrence measures, attitudes, subjective norms, perceptions of fairness of GST system and GST knowledge towards GST compliance intention variables. Testing is demonstrated through the existing hypothesis so that it can distinguish how the influence factor of each of the constructs on the other constructs. The result of data analysis shows that only variables deterrence measures and attitudes have an effect factor on GST compliance intention. The result of the data analysis obtained a correlation value of 0.627 and 0.695 respectively and the probability of 0.000 is smaller than 0.05 for all indicators. The next Chapter Five will present the discussion, conclusion and recommendations of the present study.





## **CHAPTER 5**

### **DISCUSSION, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter discusses the results computed in Chapter 4. This chapter recounts the results produced in relation to the feedback given to address the research problem. Each research question and objective will be concluded according to the findings. The results presented will further conclude the theoretical and managerial significance. This is followed by the recommendations that can be applied by the RMCD in the future. Discussions on the limitations of the research and directions for future research are also provided.

#### **5.2 Discussion of the Research Findings**

Our present study has successfully achieved all the offset objectives presented at the beginning of the research. The general objective of this research is to identify the influencing factors of GST compliance intention that encourage the SMEs business income earners to fulfil their GST obligations in Malaysia. This aim was completed by exploring the assumed relationship among the compliance intention factors by including deterrence, attitudes, subjective norms, perception of fairness of GST system together with GST knowledge in a single concatenate theoretical model. The reliability and validity test for each construct shows positive results. The results proved that the proposed model in this study has a reliable fit and the construct and discriminant validity results are steady.

The final results followed from the data proved to be important to the SMEs in Malaysia. In spite, of various drawbacks the findings will give factual support to the business professionals

and administrative personal in making policies for national tax system. The results are summarized specifically further in the subsequent sections as follows:

### **5.2.1 Tax Compliance Intention, Deterrence Measures and Attitude**

The first objective of this study is regards to tax compliance, i.e., to determine the level of GST compliance intention among the SMEs in Malaysia. The results from the survey presented in Chapter 4 suggest that GST registrants among SMEs have high levels of compliance intention of their respective GST obligations.

To address the second research objective, this study first hypothesized that '*Deterrence measures are positively related to GST compliance intention*'. Results suggest that deterrence measures are positively and significantly related to GST compliance intention. This result is consistent with previous findings of Crane and Nourzard (1990), and Andreoni, Erard and Feinstein (1998). Those elements of deterrence measure adopted by RMCD have been proven to be a powerful tool in improving GST compliance intention among the SMEs in Malaysia.

As for the second hypothesis, '*Attitudes towards GST are positively related to GST compliance intention*'. Results suggest that attitude is positively and significantly related to GST compliance intention. These results are consistent with previous findings of Hanno and Violette (1996) and Loo, McKerchar, and Hansford (2007). This results show that a better attitude which could help to encourage GST compliance intention among SME registrants. For example, GST registrants could feel guilty and think it is ethically wrong if they exclude some of their collection/revenue or manipulate the figures when completing their GST returns. Predictively, taxpayers with positive perceptions of the tax system were more likely to have positive attitudes towards the tax system and consequently encourage them to comply.

While the study found that the level of GST compliance intention among SMEs in Malaysia is a high intention, deterrence measures and attitude was significantly positively related to GST compliance intention but statistics show that the level of GST non-compliance remains high especially in 2016. Why these things happen and what are the real problems faced by SMEs in Malaysia that made them failed to comply with the requirements of the GST's act and regulations?

This could be due to certain challenges and problems as highlighted by Ching, Kasipillai and Sarker (2017). According to their findings, there are many challenges and problems faced by SMEs in Malaysia to comply with GST laws and regulations namely:

- a) SMEs expressed negative views towards GST implementation.
- b) SMEs expressed negative attitude towards GST regulations.
- c) SMEs assume that GST is a burden.
- d) SMEs have a challenge relates to education of staff in compliance with GST rules and regulations.
- e) GST accounting software does not work properly.
- f) SMEs facing compliance costs problems.

All the findings as mention above can be considered as a reason to raise the issue of GST non-compliance among SMEs in Malaysia. The interest of this study is to investigate factors revolving around the combined Economic Theory of Deterrence (severity of penalties, enforcement procedures and probability of detection) and the extended elements in the Theory of Reasoned Actions (attitudes, subjective norms, perception of fairness of GST system and GST knowledge) towards the intention of GST compliance among the SMEs in Malaysia, therefore other variables are not discussed in this study.



### 5.2.2 Subjective Norms, Perception of Fairness of GST System and GST Knowledge.

Based on the results from data analysis and findings of the research for the third hypothesis, '*Subjective norms are positively related to GST compliance intention*', the findings suggest that subjective norms is not significantly related to GST compliance intention. This results show that subjective norms don't have any influence towards the intention to comply GST among SMEs in Malaysia. Subjective norms reflect motivation to conform to significant referents either to comply or not to comply with tax obligations. This study was conducted in Johor Bahru, the capital city of Johor and is one of the gateway to Malaysia for foreign tourists and businessmen, and an affordable alternative to Singapore where the cost of living is higher. People living in modern urban life style and consists of a cosmopolitan society. Their education level is higher than the rural population and usually they work in manufacturing, trade, commerce and public or private services. The cost of living is high and the competition of their lives is fierce and they tend to be selfish and ignore the subjective norms in social life. Due to the factors previously mentioned as possible causes the variable subjective norms is not significantly related to GST compliance intention.

As for the fourth hypothesis, '*The perception of fairness of GST system is positively related to the GST compliance intention*', results suggest that perception of fairness of GST system is no significant related to GST compliance intention. This results show that perception of fairness of GST system does not affect the GST compliance intention. These results are consistent with previous findings of Gilligan and Richardson (2005). According to them, there seem to be no universal relationship or patterns that exist cross-culturally between the different facets of tax-fairness perception and tax-compliance behaviour. Implementation of the GST in Malaysia starting on April 1, 2015, due to new 2-year implementation period may cause SMEs are unable to provide a clear picture about the perception of fairness of GST

system. Since this study finds that the perception of fairness of GST System is no significant related to GST compliance intention.

Based on the results from data analysis and findings of the research for the fifth hypothesis, '*GST knowledge is positively related to the to the GST compliance intention*', the findings suggest that GST knowledge is no significantly related to GST compliance intention. These results are consistent with previous findings of Fauziati, Minovia, Muslim and Nasrah (2016). According to their findings, tax knowledge has no impacts on tax compliance among SMEs in Kota Padang, Indonesia. This results show that the level of GST knowledge does not affect the GST compliance intention. There may be situations in which someone with lower knowledge about GST will be more comply than those with higher knowledge because they are afraid if they make mistakes. While perhaps someone with a high level of GST knowledge may have intention to exploited tax loopholes. Due to this factor in this study find that GST knowledge is no significantly related to GST compliance intention.

### **5.3 Recommendations**

This current study has a few recommendations based on the findings. The findings indicate that GST compliance intention are influenced by deterrence measures and attitudes. All recommendations would be helpful for the RMCD and other agencies which manage taxation.

#### **5.3.1 Strict Enforcement**

The GST 2014 Act stipulates that a person who refuses to pay taxes may be subject to a compound of RM50,000 or three years' jail or both, and the same sentence as the amount of tax declared as payment is not declared. This strict punishment will cause taxpayers to realize how important it is to pay them, in addition to making them pay voluntarily. If they violate,

they will suffer more losses than payments made to comply with tax instructions. Therefore, the RMCD should launch a comprehensive publicity program to clarify the reasons for introducing GST in Malaysia, explaining the advantages of GST versus SST, explaining the reason why the tax audit system and the tax penalties system are applied. These explanations will enhance understanding and compliance with GST.

### **5.3.2 Attitude**

To be effective in inducing and enforcing tax compliance, RMCD should use a persuasive methods (changing attitudes and norms). The point is that, there is a need to direct attention on changing attitude of individual taxpayers as well as that of significant others (family members, friends, colleagues and opinion leaders - highly visible, respected people) whose influence is important in encouraging tax compliance. In this way promotion of taxpayer compliance could be extended to enlisting influential members of the community, households, friends and colleagues to disseminate tax compliance messages. If the process gains a critical mass, one may expect norms to change which in turn influence behavioral patterns. For example RMCD may develop an education programme that has three themes with a view of building a culture of tax compliance. The first theme can be to create the perception that tax revenues are being utilized properly (attitude). The second theme can be a programme in mass media showing examples of businessmen paying taxes and how these taxes have been used to enhance development for the country and create employment. They should be presented as responsible citizens, and in some cases as heroes. Finally such programme may portray tax evaders as saboteurs of the national economic, social and cultural development who deserve to be ridicule by society and punished.



#### **5.4 Limitations of the Study**

This study is subject to some limitations. First, the research area closed for this study. Only Johor Bahru area is selected for research due to time constraints. The data collected cannot really show the relationship of all SMEs in Malaysia as the area and the number of respondents are small - 396 SMEs in Johor Bahru. As a result, researchers should not generalize findings on deterrence measures, attitude, subjective norms, perception of fairness of GST system, GST knowledge and GST compliance intention among SMEs in Malaysia. It is recommended that future studies should be extended to other areas in Malaysia with larger SMEs numbers.

Secondly, GST's compliance intentions are not dependent only on five independent variables (deterrence measures, attitudes, subjective norms, perceptions of fairness of GST system and GST knowledge. As a result, researchers cannot generalize the findings to determine the GST compliance intent between SMEs in Malaysia. Future research can be done with more independent variables for the next study. The study can identify more factors that influence the GST compliance intent between SMEs. This will help them to gain a better understanding of aspects pertaining to the determinants of GST compliance intentions between SMEs.

Finally, this study does not examine the relationship between demographic factors (age, gender, nationality, education background, business type, business sector and duration of years in business) and GST compliance intention. As a result, researchers are unable to generalize the relationship between demographic factors to determine the GST compliance intention between SMEs in Malaysia. Future researchers can examine the relationship between demographic factors and GST compliance intention. This will help them to gain a

better understanding of aspects pertaining to the determinants of GST compliance intention between SMEs in Malaysia.

### **5.5 Direction for Future Research**

A similar research can be carried out throughout Malaysia, by certain sectors or in other countries where there is a tax system that resembles a tax system in Malaysia. Several areas to be discussed in future research include the burden of compliance costs, tax compliance behaviors and the level of understanding of GST rules from the perspective of taxpayers. Data collection methods should also take into account other methods, such as interviews and experiments that should yield different results and answers to researchers. Transparent communication can provide more accurate and meaningful data. Future studies may also examine other developments in taxation so that the information obtained can improve knowledge.



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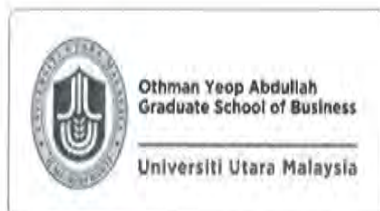




## **APPENDIX A**

**UUM**  
**Universiti Utara Malaysia**

## Cover Letter for Research Questionnaire



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### ***A SURVEY ON THE INFLUENCING FACTORS OF GST COMPLIANCE INTENTION AMONG THE SMALL AND MEDIUM ENTERPRISES BUSINESS INCOME EARNERS IN MALAYSIA***

*Dear Respondents,*

I am a Master Degree candidate at the above-named university, currently working on my Master Dissertation with a proposed title of "The Influencing Factors of GST Compliance Intention among the Small and Medium Enterprises Business Income Earners in Malaysia". For that purpose, I would appreciate your kind cooperation to fill in this questionnaire. This questionnaire will only take approximately 5 minutes to be filled in.

Please be assured that your responses will only be used for academic purpose. Hence, your identity will never be known throughout any part of the research process.

Thank you very much in anticipation of your responses.

Yours sincerely,

Zuhailah Binti Idris @ Zainon  
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**Othman Yeop Abdullah  
Graduate School of Business**

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**Universiti Utara Malaysia**

**The Influencing Factors of GST Compliance Intention among the Small  
and Medium Enterprises Business Income Earners in Malaysia**



**UUM**  

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**Universiti Utara Malaysia**

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### GENERAL INSTRUCTION.

This survey is divided into SEVEN SECTIONS. Please answer all questions.

#### SECTION A

Kindly tick (/) in the appropriate box.

1. Age

Below 20 ☐

31 – 40 ☐

20 - 30 ☐

41 and  
Above ☐

2. Gender

Male ☐

Female ☐

3. Nationality

Malaysian ☐

Other  
(Specify) ☐

4. Education Background

Diploma ☐

Master's  
Degree ☐

Bachelors's  
Degree ☐

Other  
(Specify) ☐

5. Type of business

Company ☐

Professional ☐

Sole Proprietor ☐

Other  
(Specify) ☐

Partnership ☐

6. Business Sector

Manufacturing ☐

Service ☐

Retailing ☐

Construction ☐

Trading ☐

Other  
(Specify) ☐

7. Duration of Years in Business

Less than  
12 months

4 – 6years

1 – 3 years

7 years  
and above

**SECTION B**

Please read each statement carefully and answer (circle) accordingly **based on** the following scale:

1	2	3	4	5			
Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree			
Statement			Scale				
I would fully report my sales income to comply GST			1	2	3	4	5
I would not attempt to cheat by omitting to report my income from sales to avoid GST			1	2	3	4	5
Paying the correct amount of GST is my civil duty			1	2	3	4	5
Paying the correct amount of GST is an important contribution to the development of Malaysia			1	2	3	4	5

Universiti Utara Malaysia

**SECTION C**

1	2	3	4	5				
Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree				
Statement				Scale				
The penalties imposed on the GST non-compliance are severe.				1	2	3	4	5
I would pay the GST due to the existence of penalties.				1	2	3	4	5
The likelihood of penalties and sanctions increase my intention to comply with GST.				1	2	3	4	5
The RMCD enforced the GST system efficiently through frequent audits.				1	2	3	4	5
The likelihood of audits and probability to be detected (non-compliance) encourage me to comply with GST.				1	2	3	4	5

### SECTION D

1	2	3	4	5			
Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree			
Statement			Scale				
I would be upset if did not report my sales income fully to comply GST			1	2	3	4	5
I would feel guilty if I do not declare my sales income to avoid GST.			1	2	3	4	5
I would feel guilty if I underreport my sales income to avoid GST.			1	2	3	4	5
I believe I have a moral obligation to report all my sales income to comply with GST.			1	2	3	4	5

### SECTION E

1	2	3	4	5	
Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
Statement			Scale		
Most people who are important to me think that I should report all my sales income to comply with GST	1	2	3	4	5
Most people who are important to me would include all their sales income in their tax return to comply with GST.	1	2	3	4	5
Generally, I would do what I believe most people who are important to me would do to comply with GST if they were in a similar situation.	1	2	3	4	5
Most people who are important to me would not respect me if I underreport my sales income to avoid GST.	1	2	3	4	5
I would be deterred from underreporting my sales income to avoid GST if I believe that I will lose the respect of most people who are important to me.	1	2	3	4	5



### SECTION F

1	2	3	4	5			
Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree			
Statement			Scale				
The Malaysian GST system is a fair system.			1	2	3	4	5
Services offered by the Government are satisfactory.			1	2	3	4	5
The Government efficiently manage the GST collected for the purpose of people's well-being.			1	2	3	4	5
The service delivered from the Government is poor.			1	2	3	4	5
All taxpayers are treated equally under the GST system.			1	2	3	4	5

### SECTION G

1	2	3	4	5			
Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree			
Statement			Scale				
Information about GST licensee is easy to access.			1	2	3	4	5
I know when to apply for GST license.			1	2	3	4	5
I know how to apply for GST license.			1	2	3	4	5
I have attended a tax awareness programmes or seminars on GST.			1	2	3	4	5
RMCD provide me with sufficient information on the penalties regime.			1	2	3	4	5

-END OF QUESTIONNAIRE -

**THANK YOU VERY MUCH FOR TAKING YOUR PRECIOUS TIME TO  
ANSWER THE QUESTIONNAIRE”.**